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Management Review of the Local Government Services Division

By: Marvin Eicholtz

September 27, 1982

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STATE OF MONTANA

DEPARTMENT OF ADMINISTRATION

DIRECTOR'S OFFICE

Management Review of the Local Government Services Division

Submitted by:

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September 27, 1982

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INTRODUCTION

This report examines the progress in installing the Budgetary, Accounting and Reporting System in Montana cities and counties and introduces options for future services by the Accounting and Management Systems Bureau once the installations are completed by the audit bureau and suggests additional fees for some services and reduced general fund for revolving fund audits.

THE ACCOUNTING AND MANAGEMENT SYSTEMS BUREAU

BACKGROUND

This bureau is basically responsible for installing a uniform Budgetary, Accounting and Reporting System (BARS) in all Montana cities and counties. The BARS system was designed by the bureau to provide uniform accounting methodology for all cities and counties incorporating generally accepted accounting principles. The need for BARS resulted from an increased demand for comparable fiscal information on these governmental operations.

The responsibility for implementing a uniform accounting system in these governmental entities is established by law.

Section 2-7-504, MCA, states that "the department (DOA) shall prescribe the general methods and details of accounting for the receipt and disbursement of all moneys belonging to counties; incorporated cities and towns; 1st, 2nd, 3rd class school districts with a high school; and other entities outlined in section 2-7-503, MCA, and shall establish general methods and details of accounting. All governmental entity officers shall conform with the standards prescribed by DOA.

Section 7-6-2302 states that DOA shall make rules and classifications and prescribe forms necessary to carry out the county budget law, to define what expenditures are chargeable to each budget account, and to establish accounting and cost systems necessary to provide accurate budget information.

Section 7-6-4205, MCA, describes the role of DOA for the municipal budget law in the same wording as 7-6-2302, MCA, for counties.

The supervision of school systems' accounting is shared with the superintendent of public instruction. The School Laws of Montana, section 20-3-106, states that the superintendent of public instruction shall generally supervise the school budgeting procedures. Section 20-9-103 states that OPI shall provide for proper school budgeting procedures in accordance with GAAP.

To comply with these laws this bureau was set up in July, 1975 with funding provided by the 44th Legislature. Their first duty was to follow up on the towns' peg-board system implemented by the auditors in the early 1970's. Then in fiscal years 1975-76 and 1976-77 the bureau developed the BARS version I system which is the "foundation" accounting system for cities and counties.

The first installation of BARS was started in November, 1977 and according to bureau personnel they are on target in meeting H.B. 500's June 30, 1984 deadline for implementing BARS into governmental entities.

Bureau personnel stated that all installations to date have been voluntary. They are trying to "sell" the BARS system based on the benefits that are realized rather than requiring mandatory compliance from governmental entities. Their approach is to mix location and size of installations in an

attempt to convince neighboring cities and counties to see the benefits of the system. According to the bureau this approach is working.

Personnel Breakdown Analysis

Position	FTE Allocation	Classification Grade	No. of Employees
Administrator	0.30	19	1
Bureau Chief	1.00	17	1
Systems Accountant Supervisor	1.00	16	1
EDP Specialist	1.00	16	Open
Systems Accountant III	1.00	15	1
Systems Accountant II	1.00	14	1
Systems Accountant I	4.00	12	4
TOTAL	9.30		9

All positions are supported 100% by the General Fund.

CAREER LADDER

Although the bureau has a career ladder established for their systems accountants, it is limited because it is not possible to move up without an open slot above. A systems accountant enters the organization at a grade 12. At this grade the accountants learn the BARS system and install these systems with direct on-site supervision. In approximately 1½ years the systems accountant has the experience to handle installations alone. At this point the individual is promoted to a grade 14 if a grade 14 slot is open.

What Can Be Done

1. Create another rung in the ladder. I discussed this possibility with Esther Schneiter, Personnel Assistant in the Classification Bureau. I proposed creating a G-13 rung from a G-12 position.

   Procedurally this can be done in the following manner.

A. Position descriptions for all positions in the ladder need to be completed. The positions descriptions outline the duties and responsibilities of each position.

B. Once a G-12 individual is performing the duties and responsibilities of the G-13 position, the position is ready for an upgrade.

C. A Position Description for the G-13 position should be submitted along with a Position Detail Form (for OBPP budget purposes) to the personnel section of the Centralized Services Division.

D. The personnel section can perform a preliminary position study to determine if the upgrade is warranted.

E. If the personnel section of Centralized Services Division supports this upgrade then it is sent to the Director's Office for approval.

F. If approval is given by the Director's Office the Position Description and the position Detail Form are submitted to the classification bureau for approval. They attempt to have a 10 day turnaround on these.

2. Upgrade present positions. If an individual is performing at the next level and there is enough work requiring this advanced level of expertise and the budget is sound a position upgrade may be appropriate. Procedurally, this would require the same steps as outlined above. Should this upgraded position become vacant in the future another qualified individual could be promoted to this position or the positions could be downgraded to the level desired.

I discussed these options with Jerry Foster, Administrator, Corporate Tax Division and Dan Bucks, Deputy Director of the Department of Revenue, along with their approach to a career ladder for the corporate tax revenue agents (auditors). Due to the amount of advanced work they have to do in auditing for fortune 500 companies they upgrade positions as in #2 above as necessary. The only difference is they may do this within DOR. They only submit a Position Detail Form to the Personnel Division which is automatically approved. This situation is the result of a verbal agreement between DOR and the Personnel Division. As attrition vacates positions they are reclassified to G-12's for entry level employment.

After discussing career ladders with DOR I am convinced that 1 and 2 above are the only options available to move qualified individuals up the ladder when advanced work needs to be completed.

With the present pay plan for state government there appears to be no method available to award individuals for merit or recognition by certificate such as a CPA.

Recommendation

The division should exercise 1 and 2 above in promoting individuals where appropriate.

FINANCIAL INFORMATION

PROGRAM 15
ACCOUNTING & MANAGEMENT SYSTEMS BUREAU
As of June, 1982

Appropriation Number	Authorized	Current Yr. Expended	Balance
G.F. 12347	$274,767	$258,475	$16,292
G.F. 12462	13,647	13,647	-
TOTAL	$288,414	$272,122	$16,292

BREAKDOWN OF CURRENT YEAR EXPENDITURES

Function	Current Yr. Expenditures	% of Total
Systems Maintenance	$ 43,706	16%
Systems Development	19,975	7%
Local Assistance	26,741	10%
General Assistance	26,001	10%
Training Local Government	5,563	2%
Staff Training	2,950	1%
County BARS Implementation	66,222	24%
City BARS Implementation	80,964	30%
	$272,122	100%

Types of expenditures are as follows:

Systems Maintenance - costs to update BARS systems previously installed in cities and counties.

Systems Development - costs for enhancements to the BARS system.

Local Assistance - costs to provide technical accounting and management assistance to cities and counties.

General Assistance - costs to provide information to other state agencies.

Training Local Government - costs to give instruction in accounting and bookkeeping to employees in city and county governments.

Staff Training - costs for training bureau staff.

BARS Implementation - actual field costs to implement BARS by city or county.

PROFESSIONAL DEVELOPMENT

I also noted that the bureau only has two certified public accountants on staff. They are the bureau chief and one systems accountant at the G-14 level. Although professional competence should not be based on certifications but on performance, this staff should be encouraged to become CPA's. This certificate would be an asset to individuals in this bureau who must maintain a high level of professionalism to successfully handle the responsibilities of local and general assistance and BARS implementation.

Recommendation

The division should establish policies and procedures to increase the ratio of CPA's on staff.

BARS IMPLEMENTATION REPORT

City and County by Fiscal Year

Fiscal Year 1978	Type of Systems Installed			
Counties	Automated	Semi-Auto	Manual	Total
Lincoln		X		
Total Counties	0	1	0	1
Cities				
Billings	X			
Hamilton			X	
Total Cities	1	0	1	2
Total Counties & Cities	1	1	1	3

Fiscal Year 1979				
Counties				
Big Horn		X		
Carbon		X		
Chouteau			X	
Jefferson			X	
Lewis & Clark	X			
Total Counties	1	2	2	5
Cities				
Deer Lodge			X	
Glendive			X	
Polson			X	
Roman			X	
Sidney			X	
Townsend			X	
Wolf Point			X	
Total Cities	0	0	7	7
Total Counties & Cities	1	2	9	12

Fiscal Year 1980	Type of Systems Installed			
Counties	Automated	Semi-Auto	Manual	Total
Broadwater			X	
Dawson		X		
Gallatin	X			
Glacier	X			
Lake		X		
Roosevelt			X	
Sweet Grass			X	
Total Counties	2	2	3	7
Cities				
Big Timber			X	
East Helena			X	
Glasgow			X	
Havre		X		
Helena	X			
Kalispell		X		
Roundup			X	
Scobey			X	
Shelby		X		
Total Cities	1	3	5	9
Total Counties & Cities	3	5	8	16

Fiscal Year 1981				
Counties				
Anaconda/Deer Lodge			X	
Butte/Silverbow	X			
Cascade	X			
Liberty		X		
Meagher	X			
Total Counties	3	1	1	5
Cities				
Columbia Falls		X		
Walkerville			X	
Total Cities	0	1	1	2
Total Counties and Cities	3	2	2	7

Fiscal Year 1982	Type of Systems Installed			
Counties	Automated	Semi-Auto	Manual	Total
Daniels	X			
Flathead	X			
Hill	X			
Powell			X	
Prairie			X	
Madison[1]			X	
Rosebud[1]	X			
Sheridan	X			
Stillwater[1]	X			
Teton	X			
Toole	X			
Treasure			X	
Total Counties	8	0	4	12
Cities				
Choteau			X	
Cut Bank			X	
Forsyth			X	
Fort Benton			X	
Hardin			X	
Livingston		X		
Miles City		X		
Plentywood			X	
Poplar			X	
Terry			X	
Total Cities	0	2	8	10
Total Counties & Cities	8	2	12	22

[1] Computer vendor installations.

BARS IMPLEMENTATION PLAN

City and County
Fiscal Years 1983 & 1984

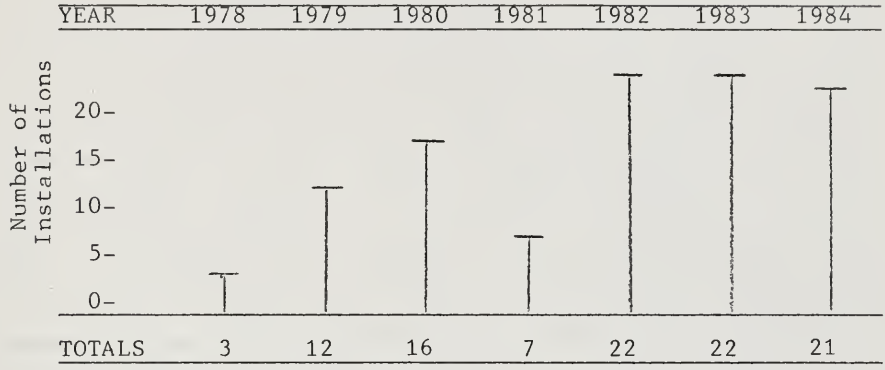
Fiscal Year 1983

Counties	Type of System to be Installed			
	Automated	Semi-Auto	Manual	Total
Blaine		X		
Fergus		X		
Granite			X	
Judith Basin			X	
Missoula	X			
Park	X			
Petroleum			X	
Pondera	X			
Ravalli		X		
Richland	X			
Wheatland			X	
Wibaux			X	
Total Counties	4	3	5	12
Cities				
Chinook			X	
Conrad			X	
Great Falls	X			
Harlem			X	
Harlowton			X	
Lewistown			X	
Libby			X	
Missoula	X			
Whitefish	X			
White Sulphur Springs			X	
Total Cities	3	0	7	10
Total Counties & Cities	7	3	12	22

Fiscal Year 1984	Type of System to be Installed			
Counties	Automated	Semi-Auto	Manual	Total
Beaverhead			X	
Carter			X	
Custer			X	
Fallon			X	
Garfield			X	
Golden Valley			X	
McCone			X	
Mineral			X	
Musselshell			X	
Phillips			X	
Powder River		X		
Valley			X	
Yellowstone		X		
Sanders			X	
Total Counties	0	2	12	14
Cities				
Baker			X	
Belgrade	X			
Bozeman	X			
Dillon			X	
Laurel	X			
Malta			X	
Red Lodge			X	
Total Cities	3	0	4	7
Total Counties & Cities	3	2	16	21
Balance of Counties and Cities to be Implemented				
Total Counties 1983 & 1984	4	5	17	26
Total Cities 1983 & 1984	6	0	11	17
	10	5	28	43

BARS IMPLEMENTATION SUMMARY

BARS Implementation Plan



YEAR	1978	1979	1980	1981	1982	1983	1984
TOTALS	3	12	16	7	22	22	21

It appears from the above analyses that, the bureau is on schedule in meeting H.B. 500's June 30, 1984 deadline for implementing BARS into governmental entities. I believe this may be a false conclusion, due to the bureau's philosophy for implementation. All installations to date have been voluntarily creating an illusion that the bureau is on target. Moving into fiscal years 1982-1983 and 1983-84 cities and counties not interested in BARS may be fighting against implementation of this system. Some entities may believe their present system is adequate and changing to a more sophisticated system may be difficult for their staff to adapt to. Many local entities do not have professional accountants or individuals trained in accounting. Therefore, they may resist BARS implementation. This could drastically slow down the implementation schedule. Considering that the present implementation plan anticipates approximately the same number of systems to implement as the present fiscal year, I believe that the bureau will not meet the required deadline.

Solution

The voluntary BARS installation policy must be amended to address the present problem of uninterested cities and counties.

Instead of waiting until 1984 to handle all problem governmental entities this bureau should start to lean on these entities now and proceed to implement the BARS systems as required by law.

Recommendation

1. In order to meet the H.B. 500 deadline of June 30, 1984, the division should establish strategies that will be necessary to install BARS in cities and counties which may not want to proceed with BARS implementation.

2. Based on the procedures outlined in one above, proceed to implement BARS within these cities and counties prior to the last scheduled year for implementation.

AFTER BARS IMPLEMENTATION

The division lacks an established operational plan for this bureau once the BARS system is implemented. The functions that have been considered are some of the present ongoing functions such as:

1. Systems Maintenance - The present BARS system will need to be maintained by support personnel to integrate enhancements caused by GAAP accounting changes and changes in the accounting structure used by the cities and counties. Presently, the division spends approximately 20% of their time on systems maintenance and development.

2. Local and General Assistance - The division will continue to respond to inquiries from local and state government personnel regarding their statutory duties and responsibilities. This includes the interpretation and implementation of laws that affect local governments. Presently, the division spends approximately 20% of their time on local and general assistance.

Considering that the above two programs only account for 40% of the bureau's present duties, the bureau's responsibilities will be reduced by 60% once the BARS system is implemented.

Some options have been considered to absorb this available time.

1. BARS versions II and III - These applications will be designed to enhance the capabilities and efficiency of the system. Some of the applications to be included are:

   BARS II

   - Property Tax/Special Assessment
   - Purchasing
   - Debt Administration
   - Program Budgeting
   - Cash Management

   BARS III

   - Non-Treasurer Collection/Reporting
   - External Accounting
   - Property/Inventory Control
   - Job Costing Accounting
   - Fixed Asset Accounting.

   The BARS II applications are in the draft stage and BARS III is in the conceptual stage. Work on these applications has slowed due to BARS I installations and maintenance requirements. No decision has been reached as to the feasibility of going ahead on these projects.

2. Implement accounting and reporting systems in Montana school districts. As discussed earlier in the background section of this report, both OPI and the department have the responsibility to implement accounting and reporting systems in Montana schools.

   Presently, the division is not providing staff to implement these accounting systems due to lack of personnel and funding to do so. The division has developed an Accounting and Reporting System Design Manual for Montana School Districts with cooperation of the OPI. Also, the division has written a manual titled Writing and Evaluating Automated Data Processing Requests for Proposals.

   These manuals were designed to help school systems implement accounting systems voluntarily on their own. According to the bureau, the schools now have the option as to whether they want to use the established chart of accounts designed by the bureau and OPI. But in 1984, all schools will be required to use these chart of accounts. Therefore in 1984, the bureau could become involved in implementing these accounting systems for the schools. But because there are approximately 600 applicable school districts a new implementation approach will need to be developed.

Together these functions would justify this bureau at its present level assuming the legislature provides the general funds to support it. Should the department decide not to develop versions II and III and not get involved in the direct implementation of school accounting and reporting systems the bureau staff could be cut in half.

The department and division will need to decide on the future of this bureau prior to the next session. Funds will have to be requested for this bureau for fiscal year 1984-85.

Recommendation

The division should submit a proposed post BARS plan of action for this bureau to the director's office. Possibly a task force of city and county financial officials would have the same beneficial impact.

THE LOCAL GOVERNMENT SERVICES (AUDIT) BUREAU

BACKGROUND

Section 2-7-503, MCA, requires the Department of Administration to audit the affairs of all:

(a) counties;

(b) incorporated cities and towns;

(c) first, second, and third class school districts that maintain a high school;

(d) school district extracurricular fund for pupil functions;

(e) irrigation districts;

(f) conservancy districts;

(g) fire districts and volunteer fire departments in unincorporated areas, towns and villages supported by a mill levy; and

(h) fire department relief associations.

Section 2-7-505, MCA, requires that each audit be a comprehensive audit of the affairs of the governmental entity including the auditors expression of opinion as to the adequacy of the financial statements and each audit is to be made in accordance with generally accepted auditing standards (GAAS) (2-7-505, MCA).

The division's contracting instructions also require audits to be completed in accordance with GAAS as adopted by:

1. The American Institute of Certified Public Accountants.

2. The General Accounting Office "Standards for Audits of Governmental Organizations, Programs, Activities, and Functions".

3. The "Guidelines for Financial and Compliance Audits of Federally Assisted Programs".

4. The Office of Management and Budgets' "Circular A-102, Attachment P".

All audits are on a 2 year cycle.

The department may contract these audits with certified public accountants with the consent of or at the request of the respective governmental entities according to section 2-7-506, MCA.

Section 2-7-513, MCA, requires the audit reports to contain:

1. Financial statements that conform with generally accepted governmental accounting principles.

2. An expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed.

3. A statement that previously noted deficiences or recommendations contained in previous audit reports have been acted upon by adoption as recommended, adoption with modification, or rejection.

4. Disclosure of any lack of compliance with state statutes or regulation as well as any operating deficiencies or recommendations for improvement.

AUDIT PERSONNEL ANALYSIS

Personnel Breakdown by Grade

Position	FTE Allocation	Classification Grade	No. of Employees
Administrator	.7	19	1
Assist Administrator	1.00	17	1
Bureau Chief	1.00	17	1
Audit Supervisor	2.00	16	2
Auditor III	9.00	15	9
Auditor II	5.00	14	2
Auditor I	7.00	12	4
Sec. II	1.00	8	1
Word Processing Operator II	1.00	7	1
	1.00	6	1
	28.70		23

The personnel for the audit function are located throughout the state. The following schedule shows the location and position of these auditors.

Audit Personnel Location

Location	Number of Persons					
	Auditor I	Auditor II	Auditor III	Audit Supervisor	Audit Bureau Chief	Total
Billings		1 (CPA)	2 (1 CPA)	1		4
Glasgow	1 (CPA)		1			2
Glendive			1			1
Great Falls	1		1			2
Havre			1 (CPA)			1
Helena	1		1	1	1 (CPA)	4
Kalispell	1					1
Livingston			1			1
Missoula		1	1			2
TOTALS	4	2	9	2	1	18

GENERAL FUND SUPPORT

Last fiscal year the Audit Bureau, a revolving fund operation, was supported also by the general fund. General fund support amounted to approximately 35%. This included the $157,500 general fund appropriation that was used as seed money for the bureau.

The bureau's audit costs are reimbursed through the entities being audited. Therefore, this bureau should be strictly a revolving fund operation and the general fund support for the audit function should be reduced or eliminated. Other expenditures not related to the audit function should be transferred to the Accounting and Management Systems Bureau.

The general fund supports 6.7 FTE within the Audit Bureau. They are:

	FTE
George Pendergast, Administrator	0.7
Don Dooley, Asst. Administrator	1.0
Mike Duncan, Audit Bureau Chief	1.0
Secretarial Staff	4.0
Total	6.7

Time Allocation of the 6.7 FTE's, according to George Pendergast, is as follows:

Revolving

Name	Revolving Fund	General Fund				Grand Total
	Audits	Systems	Contract Audits	Assist to State & Local Govern.	Total	
Pendergast, Adm.	.35	-	.10	.25	.35	.70
Duncan, Bureau Chief	.60	.05	.15	.20	.40	1.00
Dooley, Assist. Adm.	.10	.10	-	.80	.90	1.00
Kramlick, Sec.	.40	.20	.10	.30	.60	1.00
Cuta, Sec.	.90	.05	.01	.04	.10	1.00
Van Dyke, Sec.	.85	.05	.05	.05	.15	1.00
Eatinger, Sec.	.40	.15	.30	.15	.60	1.00
	3.60	.60	.71	1.79	3.10	6.70

Currently, 18 auditors are included and billed out in the audit rate of $25. Based on the above analysis, another 3.60 FTE should be included in the billing rate to bill the various entities for the true cost of their audits. Also the .60 FTE charged to systems should be accounted for in the Accounting and Management Systems Bureau. This would leave approximately 2.5 FTE to be funded by the general fund within the audit bureau for contract audit administration and assistance to state and local governments.

Recommendation

The department should eliminate the general fund support directly related to the audit function of the division. This can be done by adjusting the current billing rate to absorb applicable costs previously funded by the general fund.

THE AUDIT BILLING RATE

The current billing rate is $25 per hour. This rate is based on 23,140 billable hours of 18 staff auditors and audit costs of $576,556.

This rate needs to be recalculated to bill entities for the real cost of auditing their financial records. The current rate does not include any costs for the 6.7 FTE supported by the general fund. Also the general fund provided seed money for the audit bureau. This general fund support level will not be available in the next biennium.

I calculated that the bureau's billing rate, based on FY '82 appropriation authority, to be $29 per hour. This rate was calculated as follows:

Total hours available per person			2,080 hours
Less:			
Vacation	15 days x 8 hours = 120		
Sick Leave	12 days x 8 hours = 96		
Holidays	10 days x 8 hours = 80		(296)
			1,784
Total hours available per year			
1,784 hours x 21.6 FTE[1] =			38,534 hours
Less non-billable hours[2]:			
Technical assistance provided by supervisors - 2 x 25% x 1,784 =		(892)	
Administration - 21.6 FTE x 16 hours x 12 months =		(4,147)	
Training - 21.6 FTE x 80 hours =		(1,728)	
Annual billable hours			31,767

[1] This FTE figure includes the 3.6 FTE currently general funded that should be included in the billing rate.

[2] I did not deduct the 3,568 hours for trainees which the division does when calculating billable hours.

Currently, 6.7 FTE's in the Audit Bureau are general funded. Earlier, I suggested that general funded FTE's be reduced 2.5 FTE. This would be 37.3% (2.5/6.7) of the current general fund support.

The bureau was authorized $193,935 in general fund appropriations not considering the general fund seed money. With the reduction of general fund support for the FTE's I estimate that the general fund support will be reduced to $72,338.

The total appropriated to the bureau for FY '82 was $992,555. Deducting my estimate of general fund support leaves $920,217 that must be earned through the billing rate to totally expend their appropriation authority.

$920,217/31,767 hours = $28.9/hour billing rate

I also calculated that the bureau's billing rate based on FY '82 actual expenditures to be $21.35 per hour. This rate was calculated as follows:

Total FY '82 expenditures	$742,752
Less actual general fund support $172,518 x 37.3% =	64,349
Total to be earned through billing rate	$678,403

$678,403 divided by 31,767 hours = $21.35/hour billing rate.

Therefore, it is apparent that depending on the criteria to be used for calculating the billing rate, this rate could fluctuate from $20 to $30/hour. One other item to consider in this calculation is the FYE revolving fund cash balance of $289,280. The concept of the revolving fund is to break even, not create a surplus cash balance.

Recommendation

The division should review their present billing rate to determine if it is appropriate based on reduced general fund support for the audit bureau.

The division's revised billing rate should be submitted to the director for review and approval.

FINANCIAL INFORMATION
PROGRAM 16
LOCAL GOVERNMENT SERVICES BUREAU (AUDIT)
As of FYE June, 1982

Appropriation Number	Authorized	Current Yr. Expended	Balance
G.F. 12310	$ 2,000	$ 1,638	$ 362
G.F. 12321	4,305	4,305	-
G.F. 12348	193,935	172,519	21,416
G.F. 12386 (seed)	157,500	157,500	-
R.F. 72032	619,135	400,164	218,971
R.F. 72237	2,400	-	2,400
R.F. 72238	17,680	6,627	11,053
	$996,955	$742,753	$254,202

BREAKDOWN OF CURRENT YEAR EXPENDITURES

Function	Current Yr. Expenditures	% of Total
Staff Audits	$653,604	88%
Contract Audits	14,749	2%
Federal Audits	2,639	0%
Local Assistance	44,735	6%
General Assistance	19,794	3%
Staff Training	7,232	1%
	$742,753	100%

WORKPAPER REVIEW

I reviewed a sample of the Audit Bureau's workpapers to determine if the work was in accordance with Generally Accepted Auditing Standards. I reached a preliminary conclusion that the bureau's financial/compliance audits appear to have deficiencies in the required standards for auditing and reporting.

I completed this review with the help of Kathy Fabiano, Accounting Supervisor for the Accounting Division of DOA. Prior to our present positions at DOA each of us supervised audits for the Office of the Legislative Auditor. Also Kathy's present position requires her to be familiar in Governmental Accounting, Auditing and Financial Reporting (GAAFR) requirements.

We completed a review of the workpapers and audit reports for the following governmental entities:

Governmental Entity	BARS* Implementation	Fiscal Years of Audit
City of Red Lodge	No	FY '81 & '81
Dawson Co. School Dist. #1	No	FY '79, '80, & '81
City of Shelby	Yes	FY '79, '80, & '81
Liberty County	Yes	FY '81 & '81
Granite County	No	FY '80 & '81
Carbon County	Yes	FY '80 & '81

* BARS - This is a uniform Budgetary, Accounting, and Reporting System developed for Montana governmental entities. This system is to provide these entities with a uniform accounting methodology incorporating generally accepted accounting principles. According to the division, BARS will facilitate generating annual financial reports that will meet the requirements of GAAFR.

We noted deficiencies in all aspects of the operation. In our opinion, the workpapers were not adequate in many instances to support the opinions given in the audit reports. Very little internal control work was documented and there was little evidence of the use of an audit plan to complete the audits. Workpapers were voluminous mostly containing photocopies of meaningless information as presented. Program steps were not signed off nor were there any workpapers to indicate that the audit steps were completed in many instances. We noted contradictory opinions which also lacked proper disclosure. We noted many instances where the required statements were not included. When they were, we questioned the format used. We also noted that the footnotes presented were not adequate in many instances.

From this review, it became apparent that the division needs professional guidance to correct these performance deficiencies.

We contracted with Touche Ross & Co. to provide this professional guidance. Once their review is completed and the report is presented to the department, the division should develop an implementation plan to comply with the recommendations presented.

Recommendation

The division should develop an implementation plan to address the recommendations forthcoming in the Touche Ross report.

The division should report quarterly as to the progress being made towards implementation.

ANALYSIS OF AUDITS COMPLETED

The following graphical analysis of audits completed compares the number of audits contracted with CPA firms and the number of audits completed by the division for the last 5 years by type of local government entity.

These graphs only indicate the number of audits completed. According to the division, the audits completed by LGSD were usually for a period greater than one year, while most contracted audits covered a single year. Also, caution should be exercised when comparing the number of audits completed due to size and complexity of different audits and the staffing level of the division in different periods.

Observations

- Total audits completed is fluctuating downward.

  Total by Year

1978	1979	1980	1981	1982
513	784	571	590	545

- Audits completed by the division has decreased from 337 to 266 in the last 3 years.

- Audits completed through contract have increased from 234 to 279 in the last 3 years.

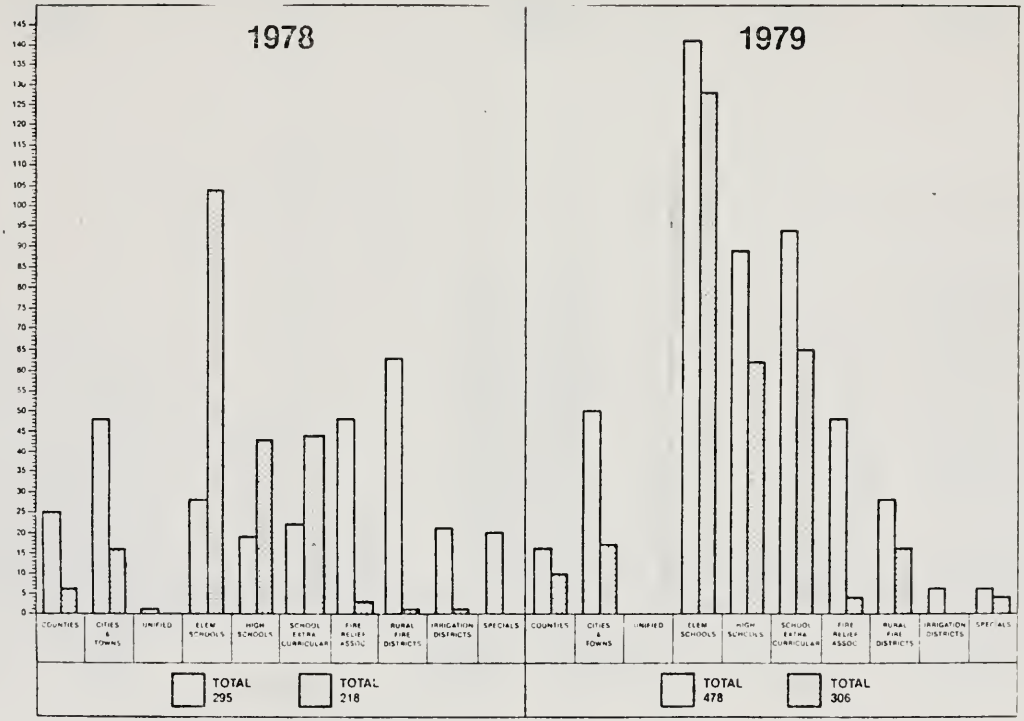
- The division contracted out over half of the county, city and school audits in 1981.

- In 1982, the division has resumed doing most of the county and city audits while reducing the number of school audits.

- The number of audits completed during FY 1979 is significantly higher than other years. According to the division this was due to higher staff levels consisting of more experienced auditors. Also a large number of small rural elementary schools were audited. These entities are no longer required to be audited by DOA.

LOCAL GOVERNMENT SERVICES BUREAU

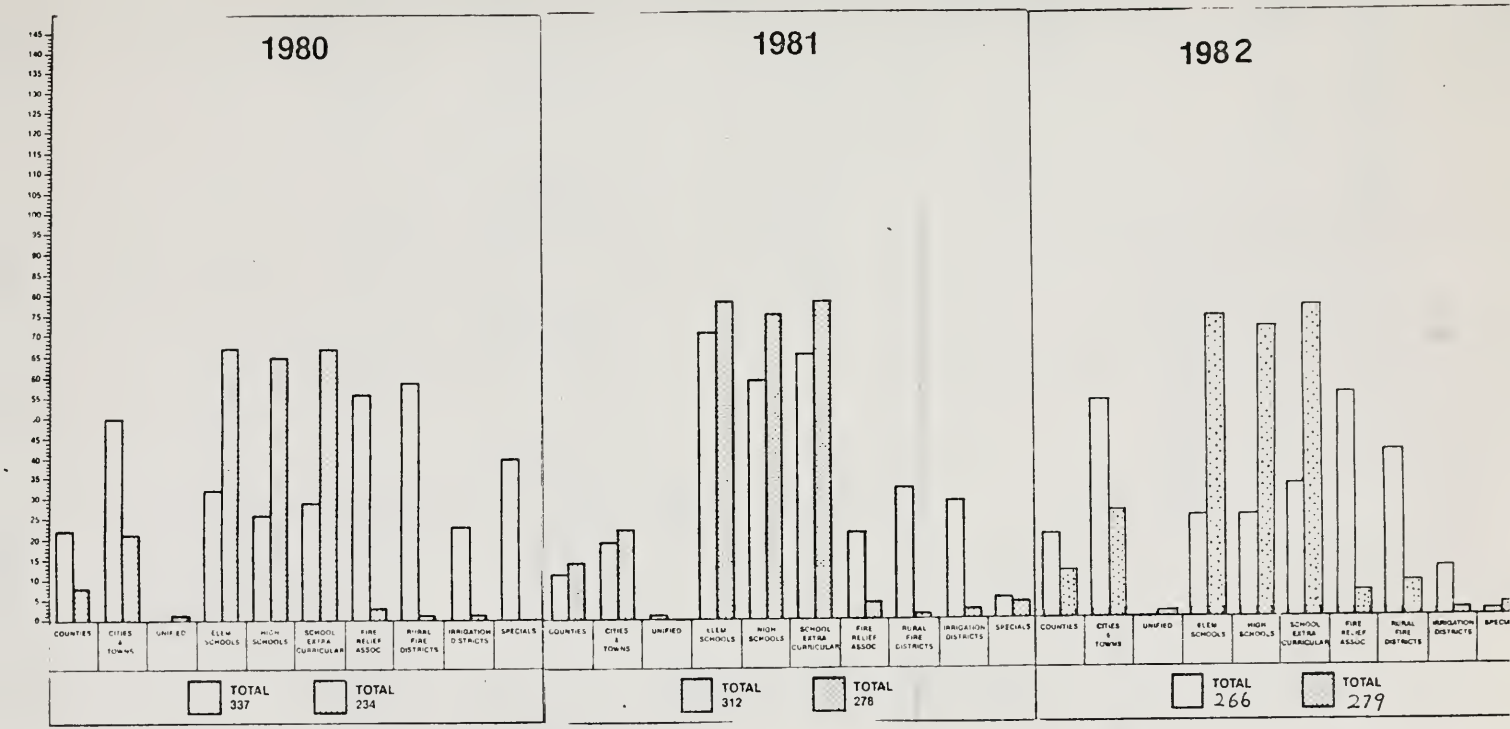
Audits Completed During Fiscal Years 1978 and 1979



Division Audits

Contract Audits

Audits Completed During Fiscal Years Ended 1980, 1981, and 1982



Division Audits

Contract Audits

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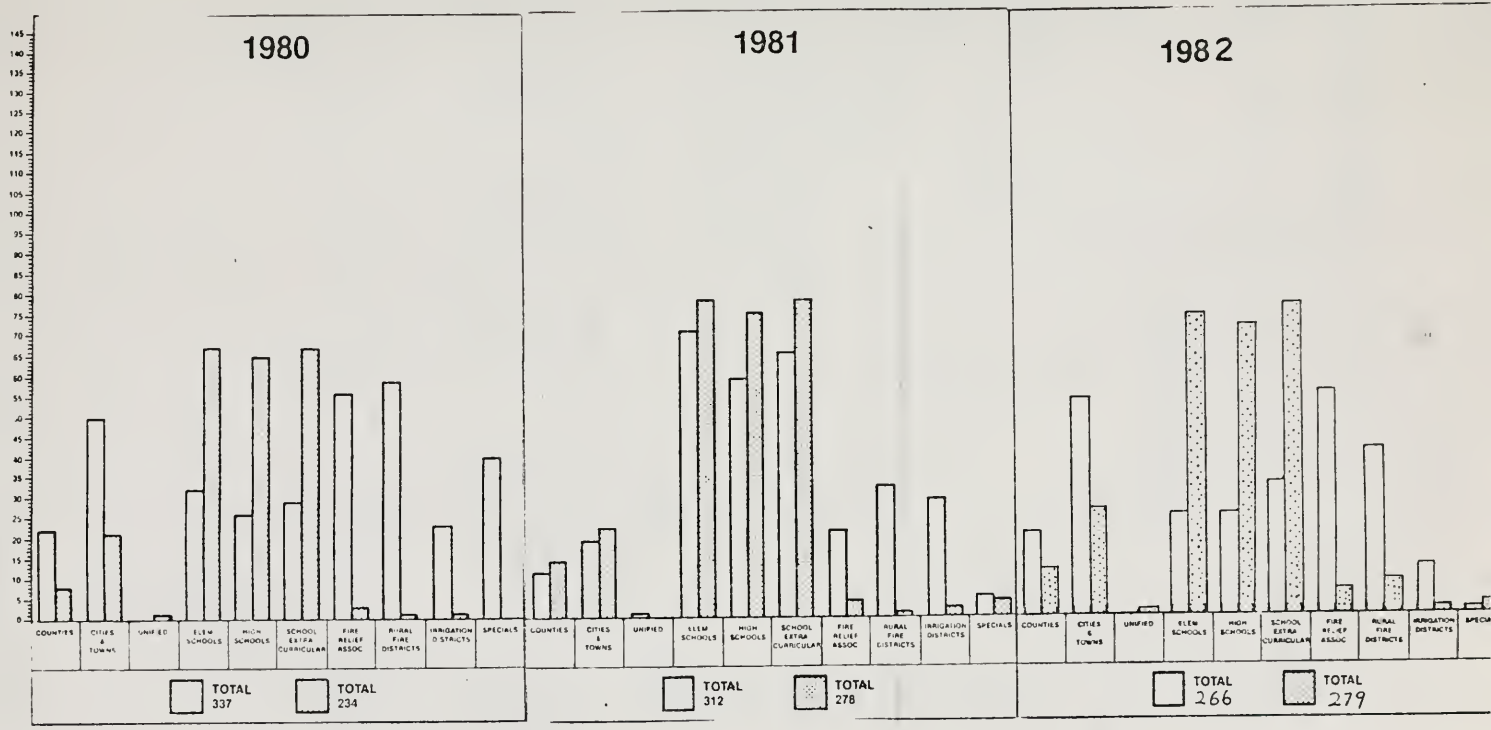
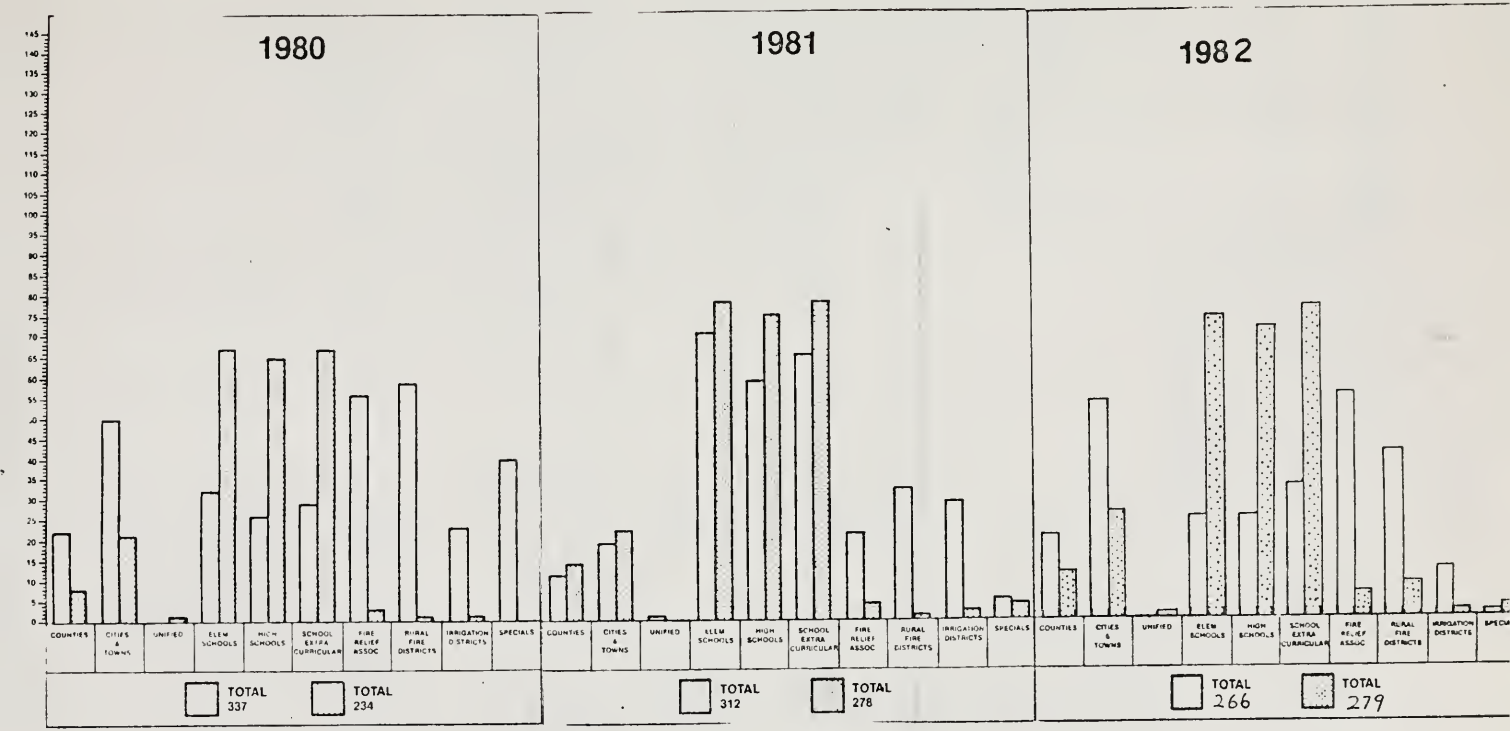


Division Audits

Contract Audits

LOCAL GOVERNMENT SERVICES BUREAU

Audits Completed During Fiscal Years Ended 1980, 1981, and 1982



Division Audits

Contract Audits

2 YEAR AUDIT CYCLE

The division is required to audit the following local government entities:

AUDITS REQUIRED

Entity	Number	% of Total
Counties	54	5%
Unified Governments	2	0%
Cities and Towns	124	12%
Schools:		
Elementary	185	19%
High Schools	164	16%
Extracurricular	180	18%
Fire Relief Associations	114	11%
Rural Fire Districts	133	13%
Irrigation Districts	46	5%
TOTAL	1,002	100%

Section 2-7-503, MCA, requires the department to audit all governmental entities outlined in this section every 2 years. It further requires that each audit shall be initiated no later than 24 months from the close of the fiscal year for which the audit is conducted.

An analysis of audits completed in fiscal years '78, '79 and '80 indicates that the division is not in compliance with this statute.

AUDITS NOT COMPLETED
AS OF AUGUST 6, 1982

Type	FY '78	FY '79	FY '80
County	0	0	2 (1)
City/Town	0	2 (2)	10 (3)
School District	0	0	1 (4)
Rural Fire District (5)	0	8	33
Fire Relief Assoc. (6)	1	9	19
Irrigation District (7)	1	3	10

Notes

1. Carter and Wibaux - audits scheduled.

2. Flaxville and Sunburst - awaiting completion of annual financial reports.

3. Opheim - audit in progress.
   Ekalaka, Lavina, Melstone, Nashua, Wibaux - audits scheduled.
   Geraldine - have stated they will contract their required audit.
   Flaxville and Sunburst - awaiting completion of annual financial reports.
   Ismay - audit to be scheduled.

4. Victor School District - audit is in progress.

5. Most rural fire districts are in counties that have contracted. The division is trying to pick these audits up as they are in the area for other audits, otherwise travel costs and the resultant audit costs are very high.

6. Many of these audits are in cities that have audits contracted. The division is trying to pick up these as they are in the area for other audits.

7. A number of the irrigation districts are on the calendar year rather than the July 1 to June 30 fiscal year.

The above analysis indicates that approximately 10% of the required audits are not initiated within the time frame required by law. The division should monitor the audit schedule to ensure compliance with the two year requirement. If the division doesn't have the resources to meet the required schedule they should solicit proposals from various CPA firms.

Recommendations

The division should ensure that all audits are initiated within the required 2 year time frame.

ADDITIONAL FEES FOR SERVICES

Currently, the general fund is subsidizing the contract administration costs and audit report filing costs to the tune of approximately $21,000 a year.

In 1982, the division contracted out 279 audits. If each contract requires an average of at least one hour of the division's time for processing, review, filing and mailing, this process is costing the general fund approximately $7,000 a year assuming the billing rate of $25.

The general fund also picks up all costs associated with filing the audit reports completed by CPA's. Filing costs include: filing; keeping track of all correspondence; sending a copy of the general comments section of each annual audit report to the newspapers, as required by 2-7-52, MCA; and

follow-up to ensure the information was published. This process is costing the general fund another $7,000 for contracted audits assuming the information above. Actual expenditures associated with contract audits for FY '82 were $14,749. Of course, the audit reports completed by the division must also be filed and reported to the press for publication. The division completed 266 audits in fiscal year 1982 costing the general fund approximately another $7,000 assuming $25 an hour.

Therefore, if the division were to charge for administration of contracts and filing costs at $25 each, the general fund would not have to absorb these costs and the revolving fund would receive approximately $21,000 in revenue.

I believe this is possible with the current statutes. Section 2-7-516, MCA, states that "the department shall charge audit fees based upon the costs incurred by the department in administration of audits of political subdivisions."

Recommendation

The division should develop a fee charge for contract administration and audit report filing costs.

AUDIT COST ESTIMATIONS

The division has a distinct advantage in estimating audit costs for political subdivision audits.

Here's how it works. Each local government entity due for an audit is sent a letter asking whether they want the division or a CPA firm to perform the audit. The entity may ask the division for an estimate and the division responds when asked. The entity may use this estimate in comparison with the estimate provided by a CPA firm to determine who they want to perform the audit. For example, the division may

estimate a job at approximately $7,500 while a CPA firm may estimate the same job at $8,500. The estimate given by the division is not firm as they bill actual hours whereas the CPA will contract the job at a firm cost of $8,500. Therefore, if the division does the audit and the job runs over by 100 hours without a scope increase the local entity ends up paying $1,500 more than the CPA estimate of $8,500. The CPA's believe this procedure to be an unfair advantage in acquiring work for the division. If the division was required to live with their estimates the CPA firms would be able to be more competitive.

The advantages of a firm quote for division audits are:

1. True competition will prevail.

2. Audit planning will improve as more care is given to the audit estimates.

3. The local government entities will know what their audit costs will be. This will reduce the number of surprises at billing time.

4. The division will be required to prove they are providing a service at a lower cost than private enterprise.

5. Efficiency should improve with an incentive to complete the job in the shortest amount of time. There is no efficiency incentive when billing for actual hours.

Recommendation

The division should be required to compete for audit jobs on the same basis as local CPA's by submitting firm quotes for audits.

MANAGEMENT INFORMATION REPORTS

Previously, the division has had a micro-computer to process management information reports. These reports included:

1. Year-to-Date Activity Report - used to monitor the auditors billable and non-billable hours.

2. Audit Time Distribution - used to monitor billable and non-billable hours by pay period.

3. Audit Status Report - used to monitor where hours were worked, by audit entity.

4. Audit Activity - used to monitor where the auditors have worked year-to-date.

5. Audit Billing Data Report - used to monitor hours billed by audit entity.

These reports are no longer being computer generated because the computer storage is not adequate. The division uses these reports extensively for management purposes. Lately, the more important reports have had to be generated by hand. The division is currently looking into transferring the programs either to the state's central computer system or adapt the programs so they are compatible with the word processing data processing capabilities. I agree that the information on these reports is useful for making management decisions.

Recommendation

The division should develop a cost estimate of transferring the program to either system and include this figure in the budget request for the upcoming biennium. This cost should be included in the billing rate to ensure recovery of these costs.

MONTANA CPA SOCIETY QUALITY CONTROL REVIEW COMMITTEE

This committee, consisting of 14 individuals, reviews a sample of audit reports submitted to LGSD from CPA firms that contract with the division to conduct audits of cities, counties, and school districts.

I discussed these responsibilities with two members of this committee to receive feedback as to the quality of audits being performed by the profession and to receive comments on ideas for improved services concerning the division. My discussions were with Gary Nysteel, Kalispell and Ron Foltz, Missoula.

The committee tries to review one report in each audit category for each CPA firm participating in local government audits. Deficient reports are re-reviewed by others on the committee to get a concensus on problem areas. Periodically, this committee will meet and decide what type of letter they will send the reviewed CPA firms. The committee issues either an A, B, C, or D letter. An A letter is issued on reports with no deficiencies. C & D letters indicate that the firm did very substandard work. The review committee requests a response from C and D letter CPA firms as to how they plan to correct their deficiencies. If the committee is not satisfied, they may refer these firms to the State Board of Accountancy for action. Presently, the committee is referring one CPA firm to the State Board.

For the 81-82 contract year the committee selected 56 reports to review. To date 41 reports have been reviewed. The types of letters sent were as follows:

Type of Letter	# of Letters Sent	% of Total
A	4	10%
B	22	54%
C	9	22%
D	6	14%
Total	41	100%

This indicates that over 1/3 or 36% of the firms performing audits contracted with the division are issuing reports with major deficiencies. This is one indication that these firms may be doing substandard field work also.

I indicated that possibly the workpapers of C and D report firms should be reviewed to determine if these firms are doing substandard audit work. They agreed that a workpaper review should be performed. They would like the division to perform these reviews because the committee lacks the resources to do them.

As a party to the contracts the department is contingently liable for substandard audit work performed by these contracting CPA firms. Considering this fact, we may want to eliminate DOA's involvement and signature in this contracting process.

Theoretically, a division review of a sample of firms' workpapers would be appropriate but practically I doubt that we could convince the Legislature to support this position with general funds. A more practical approach to this problem would be to suspend C and D report firms from contracting with DOA for a minimum of 2 years.

Earlier, I discussed reviewing workpapers of contracted CPA's with Leo Milner and Wayne Root with HHS in Denver. The purpose of the discussion was to obtain HHS's opinion as to DOA's responsibility to ensure that CPA's are completing

Attachment P audit requirements. Although they have not officially been designated as our cognizant agent they stated that DOA would not be required to ensure these firms were doing adequate audits. HHS would review the firms audits of local government entities on a sample basis for compliance.

Recommendation

The division should suspend firms issued C and D letters from contracting with DOA for a minimum of 2 years or until substantial support is presented that indicates that the firm has the capability to perform adequate audit work.

We also discussed problems with cities, counties, and school districts contracting strictly on a low bid basis.

Problems

1. Many firms bidding lack expertise in government accounting and reporting requirements.

2. There is a lack of motivation to do the work necessary to present statements in accordance with GAAP.

3. The firms, at times, do substandard work in order to audit at low bid.

4. Many smaller government entities fail to recognize the importance of an adequate audit.

Possible Solutions

1. Require training sessions on governmental accounting and reporting for firms contracting through LGSD.

2. Develop information for local governmental entities to help them select CPA firms for auditing services on other criteria along with low bid. Areas to address would be the approach to RFP objectives, anticipated depth of audit, and qualification including experience of the firms. This document should explain what the entity should expect from the audit process and express the importance of proper coverage in the audit.

Although the local entity pays for the audit, the division, as a party to the contract, has the responsibility to ensure that the local governments are getting what they need concerning audit coverage. Therefore, as long as DOA is a party to the contract, I believe that the LGSD should become more involved in the contracting procedures. Specifically, the division should review the proposals submitted to the local entities and encourage the entity to contract with the firm that proposes adequate coverage. Should the entity insist on contracting with a firm in which the division is not satisfied with we should not sign the contract. If the department chooses not to become more involved in the contracting procedure, we should eliminate ourselves as a party to the contract.

Audit Coverage - Both members of the committee felt there would be substantial opposition to all audits being completed by the division or the division determining which governmental entity audits that will be contracted. They felt that the opposition would not come from the profession as much as from the entities themselves.

Reasons:

1. These units are paying for the audits and want to contract with community firms.

2. There are instances in which a city may be trying to get a bond rating. Usually, a rating is available only if the opinion is signed by a large established firm such as the Big 8.

Lack of Action - Another problem discussed was the lack of action on audit report disclosure of noncompliance with state law. Apparently, there is confusion as to whose responsibility it is to report such discrepancies. Mr. Foltz stated that the audits of the Butte/Silver Bow School District #1 were a good example. I reviewed the past audit reports and found the following:

Budgeted fund cash overdrafts were noted in the FYE 1980 audit as follows. The general fund overdraft amounted to $121,013. The FYE 1981 audit report noted that this deficit had grown to $222,103. The audit report noted that this deficit was very serious as it had almost doubled in one year. They also noted that state law prohibits negative fund balances at FYE.

The audit reports also disclosed a growing deficit in nonbudgeted funds. The school food fund deficit has increased over the past few years as follows:

June 30, 1978	($ 96,588)
June 30, 1979	($129,503)
June 30, 1980	($223,936)
June 30, 1981	($309,219)

Section 20-9-210, MCA limits expenditures at any time during the school fiscal year for a nonbudgeted fund to the amount of cash balance of the fund.

This is only two examples of ten funds noted as overexpended at FYE.

The auditors also noted that the school district violated section 20-10-147, MCA, by transferring $116,807 from the Bus Depreciation Reserve Fund to the Vocational Technical Center without a vote of the people in the district.

The question raised was what happens to these disclosed statute violations? The answer is nothing.

The division should be disclosing this type of information to the proper authority which is probably the County Attorney or the Attorney General.

Recommendation

1. The division should review and report all significant statute violations noted in all LGSD and contracted audits to the department director and the proper enforcement authority.

2. Should the department decide to not become more involved in the contracting procedures then, we should eliminate ourselves as a party to the contract.

SPACE REQUIREMENTS

Presently, the division is leasing space at 805 North Last Chance Gulch for a term of 5 years which started September 1, 1980 and expires on August 31, 1985. The lease payment amounts to $25,441/year for 2 floors containing 6,190 sq. ft. The charge per square foot calculates out to $4.11. This is significantly higher than the rental charge of $2.62 in fiscal year 1982 and $2.69 in fiscal year 1983 per square foot billed out to state agencies in the Capitol Complex.

The division calculated the minimum space needs to be 3,700 square feet. These square footage requirements were based on

guidelines obtained from the General Services Division. The square footage requirements assume all space is usable. The actual square footage required may be greater or less depending on the space available.

If the space needs are estimated at 4,000 sq. ft. the rental cost at $2.69 per sq. ft. per year would be $10,760. The division could save $14,681 if space could be located within the Complex.

The problem is locating the proper space and getting a release from the present contract. The lease states that the lease can be cancelled upon 90 days written notice to the lessor at anytime after August 31, 1983.

Recommendation

The department should consider locating the division within the Complex to reduce the rental costs by $14,681.

The department's legal staff should review the lease agreement and determine if there is any way the department can obtain an early release from this contract.

OTHER ITEMS

STAFF TRAINING

The financial breakdowns for both programs indicate only 1% of total expenditures is for staff training. This is significantly low for programs involved with auditing and accounting system implementation.

I discussed the possibility of LGSD auditors participating in scheduled training with the Office of Legislative Auditors. Wayne Kedish, Audit Manager with OLA, stated that he felt that a coordinated effort would probably be possible.

As a guideline for the amount of training needed the OLA budgets approximately 56 hours per person. This number is used to ensure each auditor receives the required CPE training every year.

Recommendations

1. The division should identify the training needs of the staff.

2. The division should follow-up on coordinating some staff training with the Office of the Legislative Auditor. The OLA contact is C. D. Avery.

3. The division should ensure their budget for the next biennium anticipates training at a higher level.

PERFORMANCE EVALUATIONS

The division has not given performance evaluations since its transfer to this department. The division is currently writing the evaluation criteria for all employees. This criteria will be based on new position descriptions being written on each position.

Section 2-18-102, MCA, requires all state agencies to have an effective performance appraisal system. Therefore, it is the policy of the department that the performance of all permanent state employees be regularly appraised.

Recommendation

The division should ensure that all employees are issued a performance evaluation at least once every 12 months.

WORD PROCESSING EQUIPMENT

The division purchased a word processing system to handle their word/text processing needs. This multi-user, multi-tasking system will have four CRT terminals, and two shared letter printers. This system will have some data processing capabilities such as footing and cross-footing financial statements. The system can be programmed to handle other data processing needs.

Training for 4 employees will be on September 14-17. This training is basically to learn the operation of the word processing software feature. Actual installation of the hardware will be around September 20, 1982.

The division administrator assumes there will be no reduction of staff as a result of this word processing equipment due to the additional accounting and payroll responsibilities set upon the division which they were not required to do at DCA. Currently, it is necessary to contract a lot of the typing out. The contracted services amount to approximately 2-2 1/2 FTE. Mr. Pendergast assumes that this contracted service may be reduced once the system is up and running efficiently.

CPA LIAISON COMMITTEE

The liaison committee attempts to solve mutual problems and develop uniformity between the division auditors and the CPA community. They participate in the development of audit guides to help the auditor in the field. For example, in 1980, the liaison committee issued the Audit Report Guide for Montana School Districts. The drafting of these guides is done by the division and the committee submits comments. According to Ron Foltz, of the Quality Control Committee, this guide is partially responsible for more uniform audits being completed by the CPA firms.

The next project of the liaison committee is to develop an audit guide for non-BARS towns. This is for towns under 1,000 in population where BARS will not be implemented. They expect to have a draft out by next May because the committee only meets 2 or 3 times a year.

DIVISION APPROVAL OF PLEDGED SECURITY AGREEMENTS

The DOA Task Force on Local Government Pledged Securities reviewed the various laws concerning collateralization of public funds at the request of Dave Ashley. They determined that the requirement of having the State of Montana as a party to the collateralization of local government deposits was not necessary. Subsequently, legislation has been drafted to delete the requirement that the department sign pledged security agreements involving deposits of local government funds. This legislation would amend section 7-6-207, MCA, and repeal section 7-6-209, MCA.

LOCAL GOVERNMENT AUDITS IN OTHER STATES

I contacted 5 western states to determine whether their state governments are responsible for local government audits. Most states contacted are not responsible for these audits. The local government entities in these states contract with CPA firms for audit services. Briefly, each state handles local government audits as follows.

California- Local CPA's audit all local government entities. The state is not a party to contract. It is the local entities' responsibility to contract. The state controller's office only does a cursory review of the audit reports. Federal programs in these entities are still audited by the state controller's office.

Oregon- CPA's certified by the Department of Revenue audit most of the local government entities. To become certified by the Department of Revenue, the CPA firm must have at least one individual who has passed an exam to obtain a municipal license to audit local governments. This is a one day exam on state law and municipal accounting. The person who passes this exam must supervise the audit including workpaper review. The local government entity may have their audit completed by the Secretary of State, division of audits. Out of 800 required audits, the division of audits completed only 20-40 of them.

Washington- The Office of the State Auditor has the responsibility for all government entity audits, state and local. One division handles all departmental audits while another division handles all the local entity audits. The head of this department is an elected officer. This person's staff consists of about 220 auditors, 60 for state department audits and the balance performs local entity audits. The local audit function is divided into 12 regions with a manager in charge of each region. Each headquarter is located within its own region. No audits are contracted out to CPA firms.

Colorado- Local CPA firm completes all the local entity audits required. The state has no part in the contract or choosing a CPA firm. They review the audit report and submit deficient reports to the state society of CPA's.

Idaho- All local government audits are performed by CPA firms. The state doesn't do any of these audits and is not a party to the contract for audit. The audit reports are sent to the Legislative Auditor where a cursory review is performed. Occasionally, the Board of Accountancy will review a sample of audits on file.

Wyoming- The state examiner performs city and town audits where the population is less than 4,000. All other audits of governmental entities are contracted out to CPA firms. The local entity handles all aspects of the contract and the state is not involved. The state did develop the chart of accounts to be used by these entities.

This survey indicates that other states are willing to let the private sector complete most, if not all, local government audits. The department should study this option further.

COMMENTS FROM LOCAL GOVERNMENT ENTITIES

People contacted:

- Alec Hanson, Montana League of Cities & Towns;
- Bill Duffy, Montana Association of Counties;
- Bill Verwolf, Financial Director, Helena;
- John Gunther, Computer Analyst, Billings;
- Mike Young, Financial Director, Missoula;
- Barbara Thorton, Accountant, Missoula.

The reason for these contacts was to receive input from the local governments as to the services provided by the division and whether BARS is acceptable and capable of generating financial data that will provide financial statements that are in accordance with GAAP.

Generally, the response was of high praise for the division. The technical assistance provided by the division is a great help to cities and counties. Their main concern was the potential loss of statistical local government information

that use to be provided by RISD. One suggestion was possibly transferring the data center function to the LGSD as this appears to be the only division left that has a direct association with the local entities.

As far as BARS is concerned, all believe this chart of accounts can adequately provide financial statements in accordance with GAAP.

Helena has a division implemented BARS system while Missoula and Billings have systems which have the BARS chart of accounts adapted to it. Missoula has a Burroughs double entry system and Billings has a system called FAMIS. Billings had a division implemented BARS system implemented in 1978 but moved to a different system due to the number of coding digits necessary. With the new system they use only 6 digits as compared to 20 digits with BARS. The BARS system became work intensive with the increase in volume. They feel the BARS system is more compatable with small cities and counties than with larger entities that must handle a large volume of transactions.

They all agreed that the BARS system is a start in obtaining comparable information between cities and counties concerning budget data and expenditures.

One suggestion offered was to put together a position letter on the most frequently asked questions and send to the cities and counties. They believe this would reduce the number of phone calls necessary to the League of Cities and Towns.

-End-